Su

Wardair Canada Ltd. • Annual Report 1968

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PRESIDENT'S REPORT TO THE SHAREHOLDERS

During 1968, gross revenues increased 74% to $9,638,373.00; however, net earnings decreased to $376,873.00 compared to earnings of $967,372.00 during 1967. Total dollars expended on fixed assets in 1968 was $7,713,567.00 and covered the purchase of a Boeing 707-320C aircraft plus spare engines, parts and equipment in support of this machine.

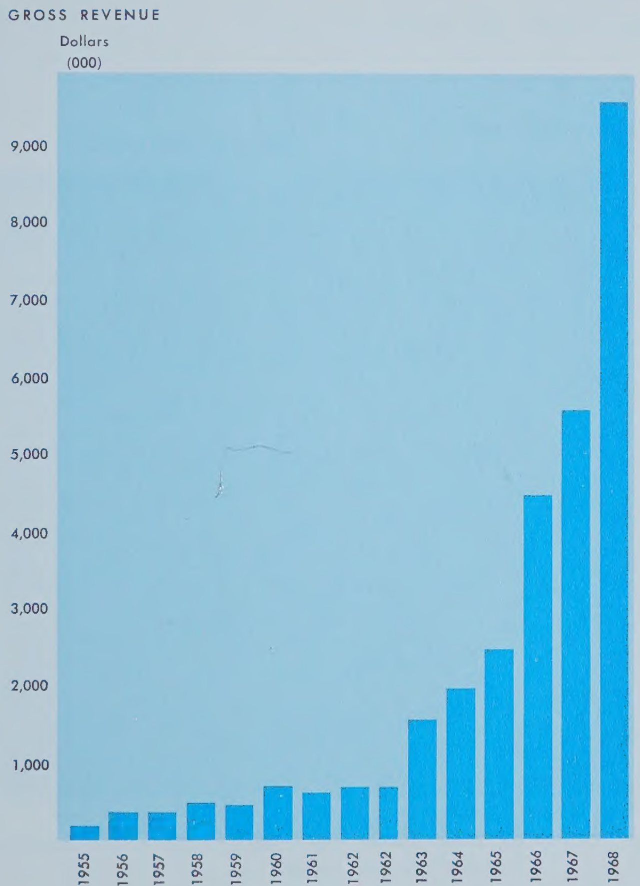
International Operations

Depressed charter rates, principally due to foreign air carriers, reduced the yield of Canadian carriers and hurt our net earnings. Canadian Transport Commission statistics indicate foreign airlines transported 50.2% of the charter flights conducted between Canada and Europe. Of the Canadian air carriers' participation in the total 1968 North Atlantic charter market, Wardair conducted 26.5% of the flights and the combined participation of other Canadian carriers totalled 23.3% of the market.

The growth of charters conducted in the inclusive tour charter market has greatly increased our winter revenues. However, as this type of tour is relatively new to the Canadian public, our efforts in creating the market have not, as yet, been reflected in our net revenues.

Low passenger seat-mile revenues have necessitated we withdraw the 110-seat Boeing 727 aircraft from North Atlantic operations during 1969 and this aircraft has been dry-leased to a U.S. airline for a one-year period. The Boeing 727 aircraft has been replaced by a new Boeing 707-320C aircraft which was delivered to this Company by The Boeing Company on March 14th, 1969.

The operation of two large-capacity, identically-configurated 183-seat latest model Boeing 707-320C aircraft will give this Company a sound operating and a sound competitive position in the Canadian international charter market. Regardless of our withdrawing the smaller Boeing 727 from service during 1969, we will increase our available passenger seats, on international operations, by 25% over seat availability during 1968.



Northern Operations

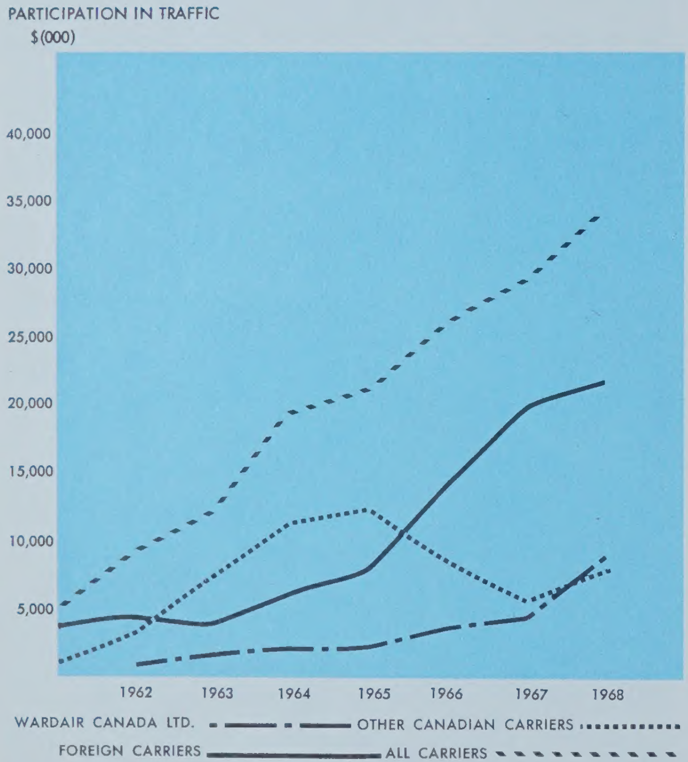
During 1968, gross revenues from our Northern Operations increased by 52% and net revenues were excellent. Our last two Bristol Freighter aircraft were not placed in service until late 1968 and early 1969; therefore, with this added capacity we anticipate continued exceptional growth from this operation during 1969.

The Northern aircraft fleet consists of 4 Bristol Freighters, each with 6-ton payload or 44-passenger capacity; 2 De Havilland Model 300 Twin Otters, each with 2.25-ton payload or 20-passenger capacity; 2 De Havilland (single engine) Otters, each with 1.25-ton payload or 14-passenger capacity and in addition, we operate a leased twin-engine Piper Apache aircraft.

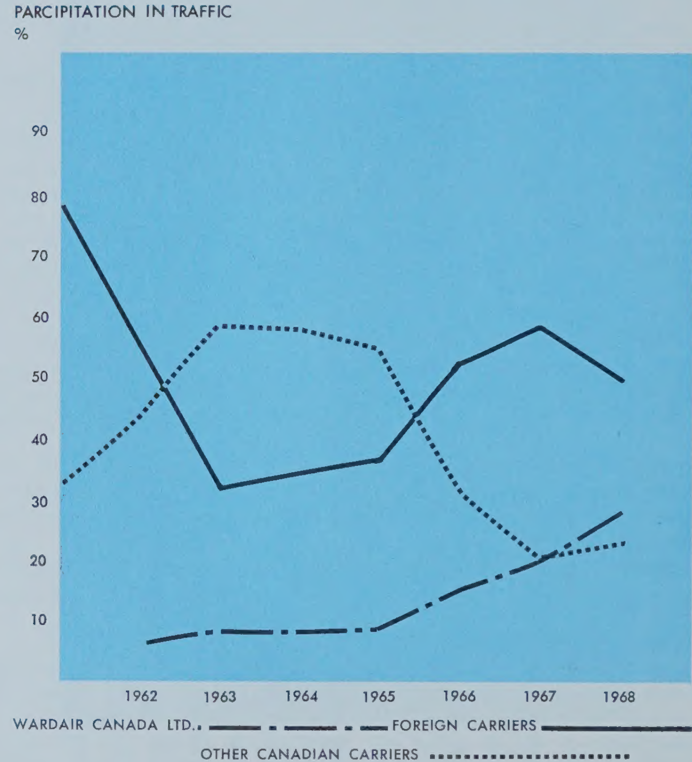
Maxwell W. Ward

Maxwell W. Ward,
President.

THE CANADIAN GROUP CHARTER MARKET



Source: Air Transport Committee Data



Source: Air Transport Committee Data

WARDAIR CANADA LTD.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	(Note 1) 1967
OPERATING REVENUE	$9,638,373	$5,548,825
OPERATING EXPENSES		
Flying operations	5,483,212	3,132,855
Aircraft, traffic and passenger servicing	1,228,051	512,113
Sales and promotion	1,061,691	429,714
General and administrative	439,230	264,289
Depreciation and amortization	671,814	235,205
	8,883,998	4,574,176
Income from operations	754,375	974,649
INTEREST ON LONG-TERM DEBT	492,637	54,814
	261,738	919,835
OTHER INCOME	115,135	84,456
Earnings before income taxes	376,873	1,004,291
Provision for income taxes (note 7)	—	36,919
NET EARNINGS (note 7)	376,873	967,372
Retained earnings at beginning of year	1,861,055	893,683
RETAINED EARNINGS AT END OF YEAR	$2,237,928	$1,861,055

The accompanying notes are an integral part of this financial statement.

ASSETS

	1968	(Note 1) 1967
CURRENT ASSETS		
Cash	$ 1,117	$ 1,418,772
Accounts receivable — trade	255,498	211,418
— other	230,935	77,354
Inventory of materials and supplies, at the lower of cost and net realizable value	483,978	235,866
Prepaid expenses and deposits	374,588	168,589
	1,346,116	2,111,999
FIXED ASSETS, at cost		
Flight equipment	12,135,525	4,980,885
Land, buildings and equipment	1,138,909	566,541
	13,274,434	5,547,426
Accumulated depreciation (note 2)	1,668,589	1,091,951
	11,605,845	4,455,475
OTHER ASSETS		
Advances and deposits on flight equipment	298,196	114,071
Deferred charges (note 2)	388,902	136,370
	687,098	250,441
	$13,639,059	$ 6,817,915

Signed on behalf of the Board

MAXWELL W. WARD, Director

M. D. WARD, Director

The accompanying notes are an in

DECEMBER 31, 1968

LIABILITIES

	1968	(Note 1) 1967
CURRENT LIABILITIES		
Bank indebtedness (secured by a 6¾% debenture)	$ 200,000	$ —
Accounts payable and accrued liabilities	2,051,246	558,708
Charter prepayments	170,749	101,505
Loan payable to a director	200,000	—
Current maturities on long-term debt	845,000	100,000
	3,466,995	760,213
PROVISION FOR AIRCRAFT OVERHAUL	553,119	261,062
LONG-TERM DEBT (note 3)	6,377,741	3,040,769
CONTINGENT LIABILITY (note 4)		

SHAREHOLDERS' EQUITY

	1968	1967
CAPITAL STOCK (note 5)		
Authorized		
5,000,000 common shares of no par value		
Issued		
3,235,400 common shares (1967—3,195,400 shares)	1,003,276	894,816
RETAINED EARNINGS	2,237,928	1,861,055
	3,241,204	2,755,871
	$13,639,059	$ 6,817,915

al part of this financial statement.

WARDAIR CANADA LTD.

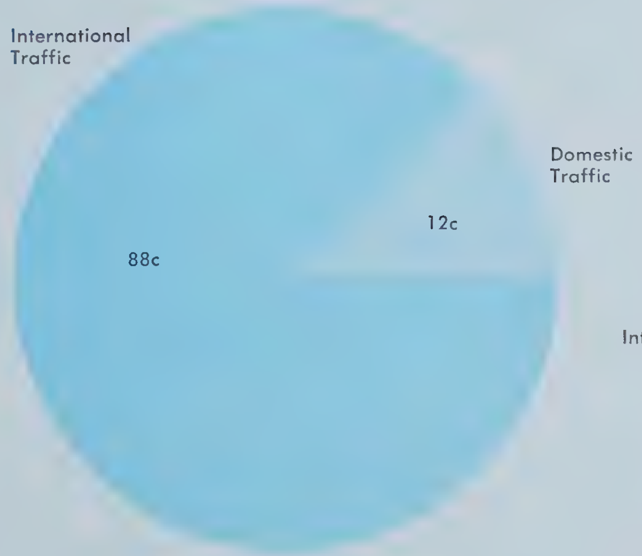
STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1968

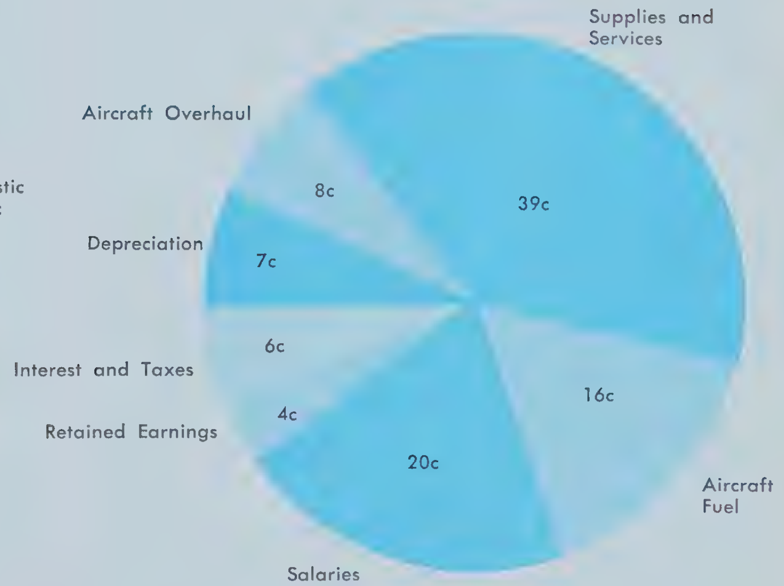
	1968	(Note 1) 1967
SOURCE OF FUNDS		
Net earnings	$ 376,873	$ 967,372
Non-cash charges		
Depreciation	625,281	211,205
Amortization of deferred charges	46,533	24,000
Provision for overhaul	292,056	25,485
Funds provided from operations	1,340,743	1,228,062
Proceeds from issue of 8¾% Debenture	4,200,000	—
Proceeds from issue of 6½% Convertible Debenture—Series A	400,000	3,100,000
Issue of common shares less agency fees	108,460	876,815
Sale of fixed assets net of gains and loss	51,988	117,368
Other	41,972	—
	6,143,163	5,322,245
APPLICATION OF FUNDS		
Fixed asset acquisitions	7,713,567	3,166,128
Advances and deposits on flight equipment	298,196	114,072
Deferred charges incurred	299,065	107,743
Current maturities on long-term debt	845,000	100,000
Payments on long-term debt	460,000	38,980
	9,615,828	3,526,923
	(3,472,665)	1,795,322
Funds appropriated and restricted at December 31, 1967 for payments under flight equipment purchase contracts	1,550,052	1,550,052
INCREASE (DECREASE) IN WORKING CAPITAL	(1,922,613)	245,270
Working capital (deficiency) at beginning of year	(198,266)	(443,536)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$(2,120,879)	$ (198,266)

The accompanying notes are an integral part of this financial statement.

REVENUE DOLLARS CAME FROM



AND WENT TO



NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1968

1. RECLASSIFICATION

Where applicable certain 1967 figures have been reclassified to permit comparability with 1968.

2. DEPRECIATION AND AMORTIZATION

Fixed assets are being depreciated on the straight-line method using varying rates calculated to amortize the cost less residual recovery over the estimated life of the assets.

Training expense of $301,438 and debenture issue expense of $87,464 are included in deferred charges and are being amortized over a ten-year period to 1978 and over the term of the debentures respectively.

3. LONG-TERM DEBT

	1968	1967
8¾% Debenture; repayable by consecutive instalments of $35,000 in each of the months January to June inclusive and December and by consecutive instalments of $100,000 in each of the months July to November inclusive to February, 1975; secured by first fixed and floating charge on all property and assets and other security	$3,740,000	$ —
6½% Convertible Debentures—Series A; due September 15, 1982; with annual purchase fund payments of $100,000 in 1969, $150,000 in 1970 and 1971, $200,000 from 1972 to 1975, $250,000 from 1976 to 1978, $300,000 from 1979 to 1981 and a final payment of $550,000 in 1982. These commitments may be satisfied by cash payment, purchase of debentures in the open market at par or less, by redemption or conversion to common shares	3,400,000	3,100,000
Mortgages and agreement for sale; repayable by nominal instalments; secured by charges on specific assets	82,741	40,769
	7,222,741	3,140,769
Current maturities	845,000	100,000
	$6,377,741	$3,040,769

As at December 31, 1968 an additional $800,000 loan may be obtained under the terms of the 8¾% Debenture. The terms of the debenture also provide restrictions on capital expenditures, the payment of dividends, salaries to officers, and retirement of sinking fund debentures prior to maturity.

During the year the company issued an additional $400,000 6½% Convertible Debentures—Series A. The trust indenture provides for; redemption at the option of the company, in whole or in part, subsequent to September 15, 1972 and before maturity at varying prices reducing from 106.5% to 100.65%; restrictions on the payment of dividends, salaries and issuance of share options to officers; the conditions under which additional funded obligations may be issued.

4. CONTINGENT LIABILITY

As at April 22, 1969, litigation is in progress whereby a former employee is claiming damages for wrongful dismissal as well as claiming a declaration that there exists a valid share option agreement. In the opinion of company management, the effect, if any, of such action on the company's financial position will not be material.

5. CAPITAL STOCK

During the year the company issued 40,000 common shares with the 6½% Convertible Debentures—Series A on the basis of units each comprising $1,000 debenture and one hundred common shares for $1,275. Of this amount $2.75 per share less issuing expenses has been credited to share capital.

The 6½% Convertible Debentures—Series A are convertible into common shares at the option of the holder on or before September 16, 1974, at the rate of $5 per share to September 15, 1970, at the rate of $6 per share to September 15, 1972 and thereafter at the rate of $7 per share to September 16, 1974.

Of the authorized and unissued common shares, 1,180,000 shares have been reserved to provide the maximum number of shares that may be required for conversion of the outstanding 6½% debentures, and for the share purchase option which the company may elect to grant to the lessor of the Boeing aircraft (note 6).

6. COMMITMENTS

The company has under lease until April, 1976 a Boeing 727 jet aircraft at a monthly rental of $61,419 (U.S.). The total rental applicable to future periods is approximately $5,343,500 (U.S.). Under the terms of the agreement the company is entitled to purchase the aircraft at the expiration of the lease for $990,695 (U.S.). On April 27, 1976 the company also must pay the lessor $1,895,000 (Can.) <u>or</u> grant the lessor an option, exercisable within one month, to purchase up to 10% of Wardair's then authorized capital stock at $1 per share. Among other things the lease agreement restricts payment of dividends, redemption of stock and similar distributions.

Subsequent to December 31, 1968 the company entered into an agreement under which it leased, commencing March 14, 1969, a Boeing 707 jet aircraft from the same lessor for a 10-year period at an annual rental of $1,358,000 (U.S.)

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

with an option to purchase such aircraft at the expiration of the lease for $1,500,000 (U.S.). In so doing, the company has granted an option to the lessor to acquire, during the 30-day period after April 27, 1976, 100,000 shares of the company at a price of $1 per share. The obligation described in the preceding paragraph which was to be performed by the company on April 27, 1976, has been altered. Now, the company may elect at any time between November 27, 1975 and April 27, 1976 (but no later than this date) to pay the lessor $1,516,000 (Can.) or to grant an option to the lessor for a 30-day period to purchase such number of shares at $1 per share which together with the 100,000 optioned shares aforesaid shall total 10% of the company's authorized capital as constituted on the option expiry date.

The company's commitments on the purchase of two De Havilland Twin Otter aircraft along with other flight equipment amounted to approximately $1,037,000 as at December 31, 1968. Part of the funds required to meet these commitments will be provided from the anticipated proceeds from the sale of flight equipment subsequent to December 31, 1968 amounting to $350,000.

The company has also entered into a lease on a hangar to December 31, 1970 along with other long-term leases on office facilities for varying periods up to 1978.

7. INCOME TAXES

The company claims capital cost allowances and other deductions allowed for income tax purposes in excess of the related amounts reflected in the accounts, and provides in its accounts only for the taxes payable on its taxable income for the year.

This accounting treatment differs from the tax allocation basis under which the income tax provision is based on earnings reported in the accounts. If the tax allocation basis had been followed in current and prior years, earnings for the year would have been reduced by $195,800 ($455,130 in 1967), and the cumulative amount by which retained earnings would have been so reduced to December 31, 1968 is $825,300.

Notwithstanding the fact that the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends the tax allocation basis for all but regulated corporations, company management does not concur that this method is appropriate. The capital cost allowance on flight equipment allowed for income tax purposes is substantially in excess of the depreciation recorded in the accounts. Consequently the deferred tax liability which results from the tax allocation basis will be indefinitely postponed, and accordingly there should be no necessity to provide for an amount where the payment date is indeterminable.

8. OFFICERS' REMUNERATION

Remuneration of officers in 1968 amounted to $48,000.

AUDITORS' REPORT

To The Shareholders
Wardair Canada Ltd.

We have examined the balance sheet of Wardair Canada Ltd. as at December 31, 1968 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Except for the effect of additional income taxes on earnings and retained earnings by not using the tax allocation basis as explained in note 7, in our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta

April 22, 1969

Riddell, Stead, Graham & Hutchison
Chartered Accountants

DIRECTORS:

MAXWELL W. WARD	President
M. D. WARD	Secretary-Treasurer
L. C. NICHOLLS	Vice-President
R. L. BORDEN	
W. T. BROWN	

COMPANY PERSONNEL:

MAXWELL W. WARD	President and General Manager
R. J. CULKIN	Vice-President of Sales and Traffic
G. D. CURLEY	Executive Assistant
J. J. ESTOCK	Comptroller
A. B. FREEMAN	Manager of Flight Operations
J. G. SMALL	Manager of Sales
J. F. WOODHALL	Manager of Maintenance
F. DAVYD	Supervisor of Aircraft Passenger Service
F. S. DORNAN	Manager of Northern Operations

Total Number of Personnel, 300

TRUSTEES: Montreal Trust Company

REGISTRAR AND TRANSFER AGENT: Montreal Trust Company
Edmonton, Toronto and Vancouver

OFFICES:

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EDMONTON, Alberta.

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